

DOWNSIZING ACTIVITIES MUST BE CAREFULLY PLANNED AND CARRIED OUT

Over the past 3 years, FDIC has significantly reduced the size of its workforce from its highest staffing level of 15,600 employees in 1993 to about 8,800 currently. More downsizing is planned. The breadth of downsizing is even more significant when the workforce of RTC is taken into account, both prior to and after its merger into FDIC on January 1, 1996. At the time of merger, FDIC inherited approximately 2,300 people from RTC.

To address the Corporation's need to carefully plan and analyze staffing requirements, each FDIC component developed detailed staffing analyses for the 1996-2000 period. These analyses are in conjunction with corporate strategic and operational planning initiatives.

Through a combination of buyouts, retirements, relocations, and reductions-in-force, staffing levels have declined considerably over the past 6 months.

Although FDIC's downsizing continues, the Corporation has reached several conclusions:

- The Corporation will have a considerable excess of staff with career appointments in certain functional areas over the next several years, particularly asset disposition activity, resolutions of failed institutions, and legal functions. Some, but not all, excess staff can be absorbed in other FDIC functions, such as supervision and consumer affairs, that are expected to need more staff.
- Staffing requirements by the end of 2000 are projected between 6,500 and 6,600 employees.
- Despite having identified staffing excesses for the longer term, FDIC anticipates it will need its staff with time-limited term appointments in some functional areas, such as asset liquidation, for another 2-3 years until the current workload is reduced.

Generally, FDIC's downsizing and restructuring actions have thus far been reasonable and well planned. However, downsizing and restructuring present challenges for FDIC management.

The Corporation must make sure it matches workload and staffing in a way that is equitable and efficient. With offices closing or consolidating, major transfers of functions, resources, information and knowledge occur that may be disruptive to the conduct of critical business. There are significant costs associated with reducing or moving staff, closing offices, and building out space. Decisionmakers must carefully consider such issues as the most economical actions to take, the timing of office closures, and availability of knowledgeable staff for critical assignments and potential crises.

OIG EXAMINES NATIONWIDE DOWNSIZING ISSUES

It is not surprising that when a federal organization undergoes downsizing, its employees and even congressional representatives may take particular interest in closings of specific offices.

During this semiannual period, the OIG received a request from two Senators and a Congresswoman to review FDIC's justification and analysis supporting the planned closure of the Northeast Service Center (NESC), in Hartford, Connecticut. Staff from our Office of Congressional Relations and Evaluations responded by evaluating the costs, cost assumptions, and non-cost factors of consolidation in Dallas, Texas, versus consolidation in Hartford, Connecticut. Also, we evaluated the costs of keeping the offices open in both Hartford and Dallas.

In this review, we found that the costs and cost assumptions presented by FDIC were reasonable. We also determined that the methodology used to calculate personnel costs adequately addressed the numerous factors that impact such costs. FDIC also appropriately factored in relocation and severance costs in comparing the personnel costs associated with closing the NESC and consolidating in Dallas.

FDIC also fairly presented the leasing costs associated with consolidating offices in either Dallas or Hartford. We did not find any deficiencies in how the Corporation analyzed and considered the non-cost factors including geographic location, airport accessibility, co-location with other FDIC divisions, and concentration of permanent staff. After its analysis, FDIC appropriately concluded that a single office was the most efficient and cost-effective consolidation option. Our analysis showed that if the Hartford office remained a full service office--one that performed all asset servicing and resolution and receivership functions--it would cost \$26.9 million more than a single office in Dallas during the period August 1999 through 2004. If Hartford were kept open as a specialty satellite office, dealing with a specific category of assets, it would cost FDIC \$18.5 million more to maintain the two offices rather than the one consolidated office over the same period.

During the reporting period, our Congressional Relations and Evaluations staff also responded to a request from FDIC's Deputy to the Chairman and Chief Operating Officer that was prompted by an anonymous allegation that there was insufficient work for the staff at the Southeast Service Center's (SESC) Division of Depositor and Asset Services (DAS). The request was to evaluate the workload and staffing at the SESC's DAS and Liquidation Branch. We performed this review during a period of time when the Corporation was conducting its own in-depth analysis of projected future workload and staffing requirements for the period 1996-2000. Accordingly, we issued an interim report to the Deputy to the Chairman and Chief Operating Officer on September 24, 1996, four weeks after the start of our review. Our final report on the workload and staffing of SESC showed that, when comparing the workload and staffing of the SESC DAS to the other service centers, there was a correlation between the SESC DAS staffing and the workload relative to the other service centers.

However, we recommended that management examine several issues involving core staffing, loan servicer oversight, and the extent of contractor employees used by SESC DRR (formerly DAS and Division of Resolutions). Management agreed to include provisions in the 1997 core staffing instructions that would require including contractor employees in staff counts when these same employees are performing work that has been the basis for determining proposed staffing levels. Management also agreed to coordinate its approach to loan servicer oversight to reduce conflict and redundancy. Finally, the Senior Executive Council agreed to include in its cost-comparison studies additional “other asset servicing” contracts that our report noted had not been reviewed, as well as other contracts using revised screening criteria. Each of these actions could result in increased operational efficiency, and, ultimately, cost savings for the Corporation.